

## Dear Investor,

In this newsletter we intend to take you through the investment process of Special Situations Portfolio. We will be elaborating on how we go about selecting a stock, thoughts on why having patience is important, when do we sell a stock and what it all means for an investor.

Before buying shares of a company, we spend a significant amount of time reading about the company, meeting various stakeholders, evaluating the finances and information we get over a period. Once we are convinced about the quality of company the next focus area is, is there an opportunity to grow the business at a decent rate for next 4-5 years and are we getting the company at a decent margin of safety. Margin of safety is an insurance from our missing out on understanding something important during our research or some unanticipated event. **Also, at the time of purchase there must be a special situation in the form of change in the external environment like change in regulations, change in demand environment, competitor moving out of the business etc. or internal change in a company like management, new business coming up, financial restructuring etc. which are leading to improving operating parameters and which are giving confidence of the sustainable growth in the business.** Once we have clarity on these aspects, we would like to build a position in the stock with a decent weightage and will like to hold a stock preferably for a very long period.

One of our observations has been that most errors occur when decisions are made in haste, both while buying and selling. Good decisions are not just made by large amount of information but by thinking and evaluating it for significant amount of time. When I started my investment journey making decisions both buying and selling was easier, I evaluated the financials, growth opportunities in that business and what is the value of business. But over time you realize the importance of management, who create value for investors and what business opportunities they can create in future. Understanding the management and evaluating the decisions which they have taken historically is the trickiest and time-consuming factor. Hence, the evolved approach is of taking our required time while making important decisions. We want to make few decisions which are very well thought out and avoid costly errors.

## Why is it important to hold a stock for long period of time?

- One, it is not necessary that market appreciates a company or business in a fixed time frame. We have seen situations where stocks have remained cheap for very long periods of time despite companies doing decently well for number of years. Also, historically it has been observed that the stock price has strong correlation with the earnings over longer period of time.

“When we set out to determine how closely price and earnings are connected, using our laboratory group of 12,000 companies, we learned that the longer the time period, the stronger the correlation. With stocks held three years, the degree of correlation between stock price and operating earnings ranged from .131 to .360. (A correlation of .360 means that 36 percent of the variance in the price was explained by the variance in earnings.) With stocks held for five years, the correlation ranged from .374 to .599. In the 10-year holding period, the correlation between earnings and stock price increased to a range of .593 to .695.” \_ page 171, **The Warren Buffett Way, Third Edition, Robert G. Hagstrom**

Our approach in such situation would be to continuously invest over a period and increase the position size in such a company.

- Secondly, we are not aiming to buy a business for a limited upside. Our aim is to create alpha over our benchmarks by sitting with chosen stocks for years at a stretch. Creating a business in excel and building a business on ground is very different and time consuming. Whatever returns were made in Titan, Reliance, HDFC Ltd or for that matter any similar other stock were not made in 2-3 years but by holding the stocks of a company for very long period. In that long period of holding time there were also years when these stocks were laggards and sometimes fell sharply.

“No matter how great the talent or efforts, some things just take time. You can't produce a baby in one month by getting nine women pregnant.” - **Warren Buffett**

“Be like a postage stamp — stick to one thing until you get there.”— **Josh Billings**

### Finally, the question is when do we sell?

- The base assumptions about the company go wrong. These assumptions could be on the capital allocation by the management, changes in the competitive strength of the company, unrelated diversification, change of management leading to change in business policies etc.
- The stock price becomes so expensive that whatever growth we fathom over next 4-5 years cannot justify the current market value of the business.
- An exceptional opportunity comes not just in terms of cheapness but also in terms of quality of business, management and growth opportunities. We do have certain tactical positions from where we hope to move over a period to longer term opportunities.
- We run a concentrated portfolio of 15 to 20 stocks and there may be times when a stock in the portfolio goes to a weightage we are not comfortable with, then we will trim it down.

### What does it mean for an investor who invests with us or is evaluating us?

- Once a decision is made to buy we will remain invested in a company for number of years. It also means that the level of activity will be low in the portfolios.
- The returns trajectory can be different than the trajectory of benchmark returns.
- The overlap between our portfolio and indexes will be generally low.
- The portfolio should be looked for investing with longer time frame. Our thoughts are that it should be at least 4 to 5 years.

### Portfolio update

The portfolio returns for the quarter were 20.28% for the quarter ending in June 2023. The best three stock performers for the quarter were: (T D Power Systems +56%), (Kirloskar Brothers Ltd +50%) and (Menon Bearings +41%). The worst three stock performers for the quarter were: MAS Financials (-3%), Accelya Solutions (+9%) and Ashiana Housing (+11%).

Last few quarters have been good for some of our portfolio companies in terms of business and they have risen quite substantially. In some of the companies we have trimmed our positions where the weightage had increased quite substantially and we were not comfortable from risk perspective.

We have investments in few themes and we will evaluate the set of companies in each theme at the end of each quarter.

## Capital goods and ancillary industry:

We have 6 companies in this space: - Action Construction Equipment, Kirloskar Brothers Ltd., TD Power, Triveni Turbine, Apar Industries and Savita Oil Technologies.

Rs in Crore	Q4 FY22				Q4FY23			
Company Name	Net Sales	Operating Profit (Excl OI)	PBT	Profit after tax	Net Sales	Operating Profit (Excl OI)	PBT	Profit after tax
Action Construction Equipment Ltd.	510.59	47.22	44.33	35.41	613.84	73.29	68.04	47.15
Apar Industries Ltd.	3,012.45	173.55	111.83	82.55	4,088.58	423.91	328.22	242.75
Kirloskar Brothers Ltd.	954.40	94.80	72.80	47.00	1,124.60	145.10	132.20	90.70
TD Power Systems Ltd.	227.17	30.61	32.83	24.66	249.85	43.42	45.97	35.35
Triveni Turbine Ltd.	236.57	41.92	44.05	33.02	369.76	66.34	73.33	55.62
Savita Oil Technologies Ltd.	828.11	91.36	85.97	63.05	955.61	47.12	49.14	36.42

Source: ACE Equity

The results have been good for all the companies except Savita Oil Technologies if we compare YoY. All the companies in this space have seen good growth in pending order book of Kirloskar brothers is up by 17%, TD Power is up by 26% and Triveni Turbine is up by 37%.

In the previous newsletter we had written that base oil prices had fallen leading to fall in EBITDA and the worst seemed behind us. We saw the EBITDA per KL/MT was at Rs. 5,144 for Q4 FY23 versus Rs. 4,342 for Q3 FY23 hence the margin improvement is visible.

## Equipment renting and Leasing business:

We have two companies in renting and leasing business. One is in the space of renting cranes (Sanghvi movers) and other is in the space of renting ships and offshore vessels (GESCO). The results of both companies were good.

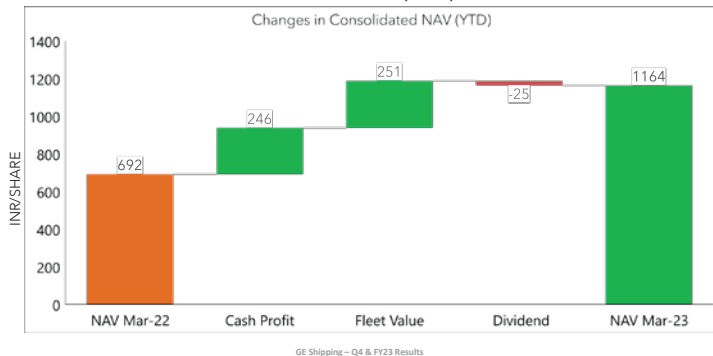
Rs in Crore	Q4 FY22				Q4FY23			
Company Name	Net Sales	Operating Profit (Excl OI)	PBT	Profit after tax	Net Sales	Operating Profit (Excl OI)	PBT	Profit after tax
The Great Eastern Shipping Company Ltd.	916.17	348.47	191.15	188.97	1,455.98	847.04	697.50	721.94
Sanghvi Movers Ltd.	109.32	35.70	24.79	18.58	126.83	76.58	45.55	33.92

Source: ACE Equity

Sanghvi Movers has order book of Rs 299 cr at the end of quarter versus Rs 236 cr last year. The company did capex of Rs 162 cr in FY23 and plans to do capex of Rs 264 cr. For the incremental capex it has got orders in advance.

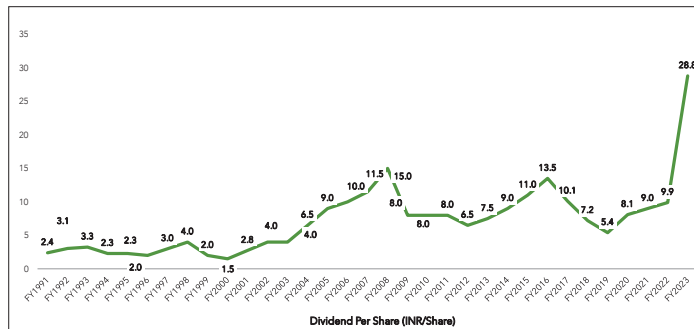
In case of GESCO FY 23 was an exceptional year in terms of profits and Net Asset Value. Net Asset Value increased from Rs 692 to Rs 1164. Cash profits and increase in fleet value contributed equally to the change in NAV. The company also increased the dividends in line with the increase in profits. GESCO has chosen a path of being cautious as the asset prices have increased for the shipping assets and will wait for good time (when asset prices are low) to grow the fleet.

## CHANGES IN CONSOLIDATED NAV (YTD)



GE Shipping - Q4 & FY23 Results

## CONSISTENT DIVIDEND PAYOUTS



GE Shipping - Q4 & FY23 Results

Source: GE Shipping investor presentation Q4 FY23.

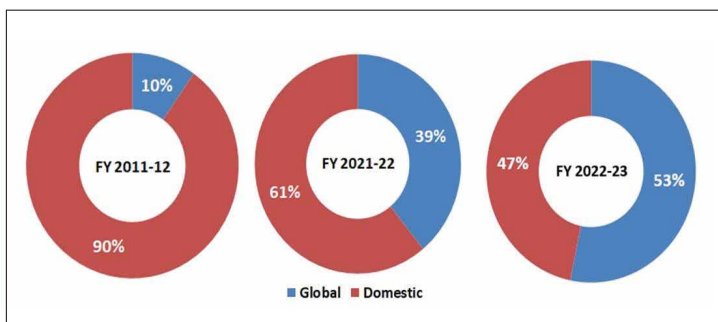
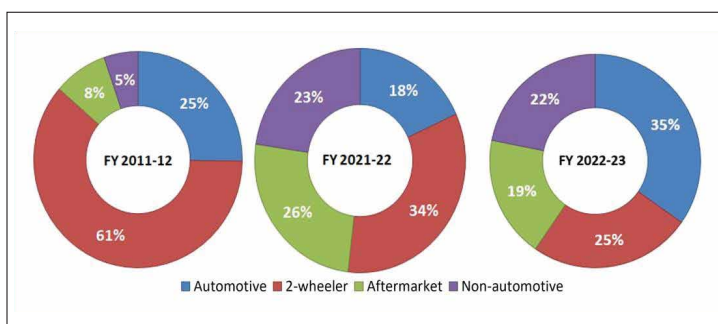
## Auto space:

We have two auto ancillary companies in the portfolio; Suprajit Engineering and Menon Bearing.

Rs in Crore	Q4 FY22				Q4FY23				
	Company Name	Net Sales	Operating Profit (Excl OI)	PBT	Profit after tax	Net Sales	Operating Profit (Excl OI)	PBT	Profit after tax
	Menon Bearings Ltd.	51.61	10.97	9.05	6.78	53.87	13.73	11.35	9.18
	Suprajit Engineering Ltd.	505.92	76.56	64.99	48.64	699.01	87.10	58.09	41.01

Source: ACE Equity

For both Suprajit and Menon results were good. Suprajit revenue diversification both in terms of geography and customer by segment has improved after the LDC acquisition. In case of Suprajit the margins for LDC are improving from -4.54% EBITDA Q1 FY23 to 4.61% EBITDA in Q4 FY23. The base business excluding LDC, the EBITDA margins have improved from 14.12% to 15.17%.



Source: Suprajit Q4 FY23 result update

STANDALONE	MARCH 2023		MARCH 2022		Growth
	Amount	%	Amount	%	
OPERATING REVENUE (Net of taxes)	14,310.19		12,712.84		12.56%
EBITDA (Operational)	2,495.33	17.44%	2,126.69	16.73%	17.33%

CONSOLIDATED (Excluding LDC)	MARCH 2023		MARCH 2022		Growth
	Amount	%	Amount	%	
OPERATING REVENUE (Net of taxes)	20,592.76		18,404.77		11.89%
EBITDA (Operational)	3,124.51	15.17%	2,599.04	14.12%	20.22%

CONSOLIDATED (Including LDC)	MARCH 2023		MARCH 2022		Growth
	Amount	%	Amount	%	
OPERATING REVENUE (Net of taxes)	27,523.55		18,404.77		49.55%
EBITDA (Operational)	3,187.42	11.58%	2,599.04	14.12%	22.64%

Phoenix Lamps Division Consolidated (PLD)	MARCH 2023		MARCH 2022		Growth
	Amount	%	Amount	%	
OPERATING REVENUE (Net of taxes)	3,640.01		3,418.68		6.47%
EBITDA (Operational)	299.20	8.22%	241.78	7.07%	23.75%

SENA DIVISION (NON-AUTOMOTIVE)	MARCH 2023		MARCH 2022		Growth
	Amount	%	Amount	%	
OPERATING REVENUE (Net of taxes)	4,601.74		4,199.58		9.58%
EBITDA (Operational)	666.35	14.48%	604.36	14.39%	10.26%

LDC DIVISION	Q1 June-22	Q2 Sep-22	Q3 Dec-22	Q4 Mar-23
OPERATING REVENUE (Net of taxes)	1,596.29	1,689.39	1,794.83	1,858.00
EBITDA (Operational)	(72.44)	(15.65)	66.18	85.69
EBITDA (Operational) %	(4.54%)	(0.93%)	3.69%	4.61%

## Real estate:

We have three residential real estate companies in our portfolio, Sobha, Kolte Patil and Ashiana Housing. For all the three companies' area sold, collections, cash flows and per square feet realizations have improved YoY in FY23.

Rs in Crore	Q4 FY22				Q4FY23			
Company Name	Net Sales	Operating Profit (Excl OI)	PBT	Profit after tax	Net Sales	Operating Profit (Excl OI)	PBT	Profit after tax
Ashiana Housing Ltd.	74.67	6.48	7.68	6.31	110.60	7.71	11.45	10.38
Kolte-Patil Developers Ltd.	376.07	40.47	36.07	29.20	796.93	173.42	171.96	121.13
Sobha Ltd.	710.30	77.60	24.80	14.20	1,209.90	115.60	66.90	48.60

Source: ACE Equity

All the three portfolio companies sounded very confident of growth for the future on their Q4 FY2023 conference call:

The debt reduction what we have done this financial year is also not something which we planned for. But the strong cash flow that we could manage month-on-month has clearly resulted in this debt reduction.....the optimistic scenario of the current economic environment and what we had, we ourselves are positively surprised with the kind of demand that is out there. So we would like to aim for growth and allocate far more capital towards growth than just debt reduction. - **Sobha Limited Q4 FY23 conference call**

If you had asked me this at the beginning of the year -- last year, I wouldn't have said the kind of increase we saw over the last 2 years, unfortunately, I'm not able to give a call on that. That said, confidence on pricing in Gurgaon, Jaipur and senior living and Jamshedpur are generally the highest as of now. And I see that to continue. - **Ashiana housing Q4 FY23 conference call**

With a strong financial framework, strong momentum of new launches, robust business development pipeline, and excellent customer satisfaction as the point of convergence for all the business efforts, we look forward to continuing our secular growth in the coming years. - **Kolte Patil Q4 FY23 conference call**

## Travel and Tourism:

We have three companies in travel and tourism space: Taj GVK, Sinclairs and Accelya Solutions. Two own hotels and the third one is in software product business (revenue accounting, revenue assurance, revenue management, sales and incentive management) for airline companies respectively. The results of Taj GVK, Sinclairs hotels and Accelya have been good.

Rs in Crore	Q4 FY22				Q4FY23			
Company Name	Net Sales	Operating Profit (Excl OI)	PBT	Profit after tax	Net Sales	Operating Profit (Excl OI)	PBT	Profit after tax
Accelya Solutions India Ltd.	92.79	34.36	26.78	19.82	119.46	44.63	49.50	36.29
Sinclairs Hotels Ltd.	9.09	2.91	2.37	1.65	13.42	5.49	23.59	19.90
Taj GVK Hotels & Resorts Ltd.	64.28	12.93	5.33	2.70	103.62	25.38	20.77	14.44

Source: ACE Equity

Air India, one of the top clients of Accelya Solutions, after acquisition by Tata will move to some other vendor from 1 Jan 2024 and will impact the revenue by high single digit in next calendar year.

## NBFC's:

We have two NBFC's in lending space: MAS Financial and JM Financial.

Rs in Crore	Q4 FY22				Q4FY23			
Company Name	Net Sales	Operating Profit (Excl OI)	PBT	Profit after tax	Net Sales	Operating Profit (Excl OI)	PBT	Profit after tax
JM Financial Ltd.	809.64	551.60	321.59	229.11	845.60	386.73	53.98	32.55
MAS Financial Services Ltd.	192.07	157.00	61.60	46.16	280.93	221.13	72.09	56.82

Source: ACE Equity

In case of JM FY 23 was a tough year where there was no income from IPO funding which gave Rs 123 cr of profits in FY22 and they took a Rs 246 cr of provisions on their Asset Reconstruction book in Q4 FY23. The consolidated loan book at the end of FY23 was Rs 15,653 cr and up by 20.3% year-on-year. The gross NPA of the lending book was 3.4% and net NPA was 2.1%.

MAS had a good year with robust growth in loan book of 29.55% for FY23 and profit growth of 27.55% in FY23. This was the first year without any COVID related issues for the company and the company expects to grow from hereon.

## Pharmaceuticals and agrochemicals:

We have one company in pharmaceutical space, Orchid Pharma, and two companies in agrochemicals space, Dhanuka Agritech and Sharda Cropchem. The results were good for all the three companies.

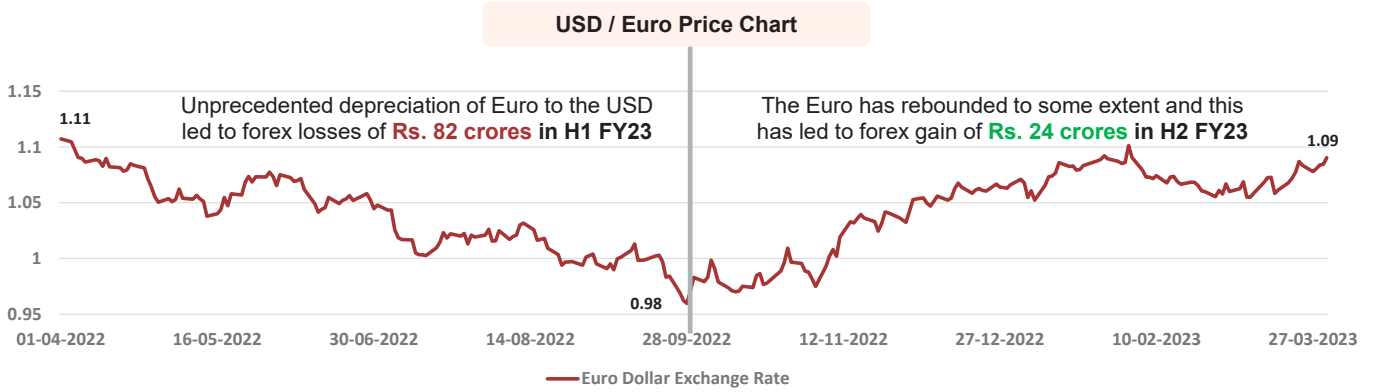
Rs in Crore	Q4 FY22				Q4FY23			
Company Name	Net Sales	Operating Profit (Excl OI)	PBT	Profit after tax	Net Sales	Operating Profit (Excl OI)	PBT	Profit after tax
Orchid Pharma Ltd.	178.13	25.77	-3.57	-3.57	209.90	39.69	65.93	65.93
Dhanuka Agritech Ltd.	318.30	65.19	72.18	54.40	371.23	77.87	86.74	65.30
Sharda Cropchem Ltd.	1,434.50	290.28	220.47	176.99	1,481.83	318.23	255.14	198.85

Source: ACE Equity

In case of Orchid the business has improved under the new management after the company going through the bankruptcy filings; revenues have grown from Rs 505 cr in FY20 to Rs 685 cr in FY23, other expense has reduced from 200 cr in FY 20 to Rs 132 cr in FY 23 resulting in EBITDA increasing from Rs 34 cr to Rs 103 cr in similar time frame. The debt from Rs 364 cr at the end of FY21 has reduced to Rs 81 cr at the end of FY23. The company has done a QIB, and the promoter stake currently is at Rs 72.4% from 89.96%.

In last quarter we had spoken about the pressure on the margins of Sharda because of Dollar strength and Euro getting weaker. In last 6 months the Euro has again strengthened versus USD and the margins have started improving for Sharda Cropchem.

## Impact of weakened Euro to the Dollar in FY23



Source: Sharda Cropchem Q4 FY23 result presentation

Finally, we believe that our approach to investing is process oriented and it's a process which can be repeated over time. Investing is a journey where both ups and downs will be there. Having a process helps you remain rational in stock selection and be patient with the companies we own in the noisy market.

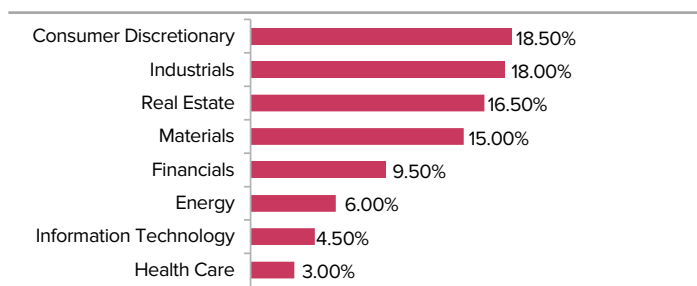
Warm regards  
Yours sincerely,

**Himanshu Upadhyay**  
Vice President and Portfolio Manager

### Top 5 Holding of o3 SSP Portfolio - as on 30<sup>th</sup> June 2023

Name	GICS Sector	Weight
Apar Industries	Industrials	6.07%
Great Eastern Shipping Co	Energy	5.58%
J M Financial	Financials	5.48%
Kolte Patil Developers	Real Estate	5.40%
Ashiana Housing	Real Estate	5.31%
		<b>27.84%</b>

### o3 SSP Model Portfolio GICS Sector Weights



### Investment Objective:

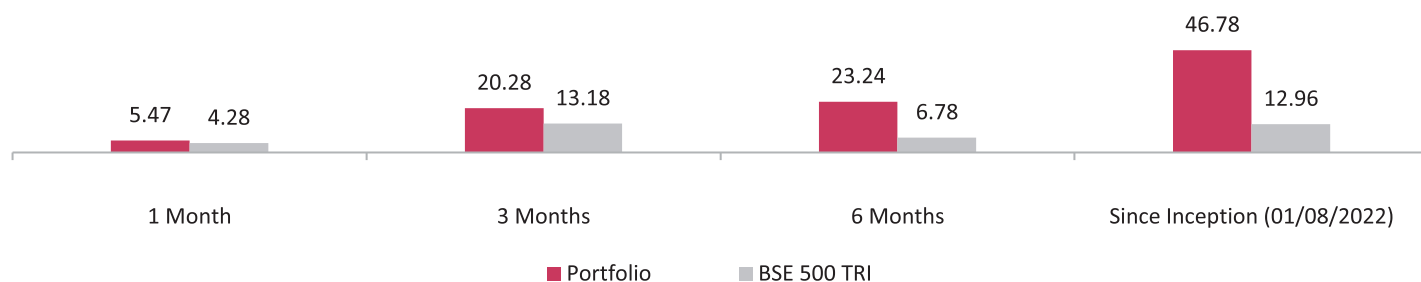
The investment objective is to invest in a business with improving prospects resulting in a visible change in operating parameters but not yet fully reflected in the company's P&L and balance sheet.

Model Portfolio Details as on 30 <sup>th</sup> June 2023		Model Portfolio Composition as on 30 <sup>th</sup> June 2023	
EPS(E) CAGR (2023 to 2025)	17.29%	Large Cap	0.00%
Portfolio PE (1 year forward PE, based on FY25)	16.52	Midcap	0.00%
Average Age of Companies	40 Years	Small Cap	91.00%
Average Market Cap (INR Cr)	4,589	Cash	9.00%

- Large Cap: Market cap of the 100th company in the BSE 500 TRI(sorted by market cap in descending order)\*
- Midcap: Market cap below 100th company to the market cap of the 250th company in the BSE 500 TRI(sorted by market cap in descending order)\*
- Small Cap: Market cap lower than the 250th company in the BSE 500 TRI(sorted by market cap in descending order)\*

\*As on last working day of the month i.e. 30th June 2023.

### Consolidated Portfolio Performance of o3 Special Situations Portfolio as on 30th June 2023



- Benchmark is BSE 500 TRI
- Since inception date stated is considered to be the date on which the first client investment was made under the investment approach

**Disclaimer:** Performance depicted is based on all the client portfolios existing as on such date, using Time Weighted Rate of Return (TWRR) of each client for the overall investment approach. Past performance is no guarantee of future returns. The above portfolio performance is after charging expenses. *The performance related information provided here is not verified by SEBI nor has SEBI certified the accuracy or adequacy of the contents of this Document.*

**Disclaimers and risk factors:** o3 Securities Private Limited is registered with SEBI as Portfolio Manager under SEBI (Portfolio Managers) Regulations, 1993. This Document is for information purpose only. None of the material on this document and/or on website is intended to be a recommendation to buy or sell any financial product including distribution, an endorsement, an investment advice, an offer to buy or sell or the solicitation of an offer to buy or sell any securities/ schemes or any other financial products/investment products (collectively "Products"). None of the material on this document and/or on website is intended to be tax advice. Any use of the information contained herein for investment related decisions by the Investors/ Recipients is at their sole discretion & risk. Please read the Disclosure Document and the agreement along with the related documents carefully before investing.

Investments in Products are subject to market risks, various micro and macro factors and forces affecting the capital markets and include price fluctuation risks. There is no assurance or guarantee/ warranty that the objectives of any of the Products will be achieved. The investments may not be suited to all categories of Investors/ Recipients. Investors/ Recipients must make their own investment decisions based on their own specific investment objectives, their financial position and using such independent professional advisors, as they believe necessary, before investing in such Products. While o3 Securities Private Limited shall endeavor to update on a reasonable basis the information disclosed here, o3 Securities Private Limited does not undertake to update such information to reflect the impact of circumstances or events, including regulatory or compliance changes that arise after the date of these disclosures. Past Performance is not indicative of future returns.

This document is strictly confidential and meant for private & restricted circulation only and should not at any point of time be construed to be an invitation for subscribing to o3 Special Situations Portfolio Investment Approach. This document may not be reproduced or redistributed to any other person. The document is solely for the understanding of intended recipient and if you are not the intended recipient, you are hereby notified that any use, distribution, reproduction or any action taken or omitted to be taken in reliance upon the same is prohibited and may be unlawful. This document has neither been approved nor disapproved by SEBI nor has SEBI certified the accuracy or adequacy of the contents of this Document. This document is not for public distribution.